

25X1

**Page Denied**

Next 2 Page(s) In Document Denied

SECRET

Tab A

The Changing Environment

The domestic and international economic environment for U.S. policy will change significantly over the next one to two years. Owing in part to U.S. policy (and, in some measure, to good luck) economic trends in 1983/84 were largely favorable for U.S. interests.

- At home, rapid economic recovery was accompanied by a surge in productive investment, slowing inflation, and a strengthening dollar.
- Europe's recovery, while insufficient to stem growing unemployment, was accompanied by a shift to more conservative market-oriented economic policies and reduced inflation.
- The credit crisis eased in the LDCs as deep currency devaluations improved trade accounts and domestic growth resumed; here, too, there was a modest shift toward market policies, particularly in the agricultural sector.
- Economic growth revived in the Asian NICs, although there are signs of growing difficulties in Taiwan that may prevent it from continuing to compete with its Asian counterparts.
- In the defense area, Soviet economic growth continued below rates experienced by the West, while the NATO countries were able to sustain real increases in defense spending amid an atmosphere of greater unity in the face of the Soviet threat.

There were, of course, also many problems including the large U.S. trade deficit; industrial (and technological) stagnation in Europe; and continuing economic problems for those LDCs which rely heavily on tropical products and raw materials for exports, including many Latin American countries and the Philippines.

It is possible that several of these positive trends could turn against us or at least be less favorable over the next two years.

- U.S. economic growth will slow and could stall, investment in productive facilities will level off or decrease, and inflation will rise.

All portions Secret

1  
SECRET

25X1

SECRET

- The failure of industrial recovery to take hold in Europe could bring problems for advocates of economic reform, particularly Margaret Thatcher and Helmut Kohl.
- There will likely be no additional increases in real defense spending among the NATO countries, including the U.S.
- And the IMF's efforts to use its funds as a lever for promoting economic reform in the LDCs may lose ground without the hoped-for transition to World Bank leadership in this area.

The political implications of these trends, should this scenario be accurate, include increasing political problems with European leaders and a dangerous economic challenge to the trend towards democracy in Central and South America.

#### Event-Driven Shifts in Interest

In addition to these changes in environment, several events have taken place over the last year that affect areas of future interest, including:

- China's dramatic move toward economic reform and accompanying requests for U.S. business and technological help.
- A less dramatic but, nevertheless, important move toward economic reform in India.
- The onset of what may be a gradual erosion in Soviet oil production and major decline in foreign exchange earnings.
- The arrival of Gorbachev in the face of these growing economic problems.
- A move toward protectionist pressures here and abroad accompanied by a call for new GATT negotiations to focus on key areas of U.S. concern including agriculture and services.
- An emerging effort to bring Europe up to speed in the technology area through the SDI.
- Failure of the British negotiations for Norwegian gas with implications for greater future European reliance on the U.S.S.R for energy.

SECRET

SECRET

Tab B

The Driving Issues

1. LDC Economic Reform
  - China
  - India
  - Others, per your DCI White Paper of December 1984
2. Need for Industrial Country Structural Economic Reform
  - West European Malaise
  - Japanese Domestic Investment and Growth
3. Soviet Economic Trends
  - Gorbachev's Economic Strategy
  - Impact of Slow Growth
  - Erosion of Soviet Oil Production and Decline in Foreign Exchange Earnings
  - Trade with the U.S.
  - East European Tensions
4. West European Energy Dependence
5. Impact of Erosion/Fall in Oil Prices
6. LDC Debt
  - U.S. Strategic Interests in Key Countries
  - Role of IMF
7. Central American Economic Growth
  - Impact of Nicaraguan Economic Sanctions
8. Trade and the New GATT Round
  - Protectionism
  - LDC Role
  - U.S.-Japan Trade
9. Technology
  - Impact of SDI
  - Offshore Reliance

All portions Secret

SECRET

25X1

**Page Denied**

Next 2 Page(s) In Document Denied

SECRET

Tab D

Other Possible Initiatives

## 1. Stimulation of Private Sector Development in the Third World:

- As outlined in the DCI White Paper "Economic Forces for Change in the Third World" written under my auspices as NIO at Large, many Third World governments are beginning to initiate practical and market-oriented policies. The involvement of China and India is particularly significant, because over a third of the world's population is involved. This trend will, I believe, gain momentum over the next decade.
- This changing climate presents significant opportunities for the United States, but under present circumstances our ability to capitalize is limited. Aid is increasingly allocated for security assistance, and the entire U.S. AID structure is ill-equipped or -inclined to promote small-scale, entrepreneurial enterprises. At the same time, the commercial banks have little appetite for initiating voluntary lending for such development while wading through the next stage of the debt crisis.
- There are various ways in which you can demonstrate your concern/support for new thinking and approaches in this area:
  - A. I am involved in the preliminary planning for a White House-sponsored conference on this issue, to be held at Georgetown University. It would highlight some of the issues raised by the President's Task Force on International Private Enterprise, but would specifically focus on what U.S. Government and/or private sector mechanisms are required to stimulate effectively LDC private sector growth. At the appropriate moment, I will seek your support and involvement to influence the White House and others to take such a Conference seriously.

25X1

All portions Secret

1  
SECRET

25X1

SECRET

25X1

3. NIO/Economics can initiate in your name a conference or two on current economic topics, such as:

- Mexican Economic and Business Prospects
- Implications of Pacific Basin Economic/Business Growth
- 

25X1

Your scheduled presence and opening statement on June 3, 1985, at the conference sponsored by OGI on the "Economic and Security Implications of Structural Change" is a perfect example.

4. Your speeches before business and other groups could include selected economic issues.

2  
SECRET